Institutional Barrier #2
Lost Revenues for BPA and Distribution Utilities

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a) Working definition of lost revenues

Lost revenue refers to the lost contribution to a utility's fixed costs due to losses in retail sales resulting from demand-side management or the installation of distributed resources on customers' sites. It's a "net" concept.

It can be looked upon as a cost of doing business that the utility eats as a part of being in business (being a good regional citizen), or it can be seen as a barrier to cost-effective demand-side measures that can and should be removed to help align utility and customer interests.

Example: if the variable cost of producing a kWh is three cents and the retail rate is five cents, every kWh of reduced retail sales costs the utility two cents per kWh in lost revenues (i.e., reduced fixed cost recovery). .

b) How are lost revenues looked upon in the industry? (How big an issue is it? To whom? Have utilities stated that this is keeping them from investing in DSM?)

Northwest ratemaking practice regarding lost revenues has varied historically, with some systems adopting corrective measures and others choosing to disregard the issue.

Utilities historically have varied in their public positions on lost revenues.
Given today's pervasive fiscal constraints,, however, any financial losses associated with DSM measures are likely to attract management concerns.

There either needs to be agreement among the affected parties that lost revenue does not represent impairment to DSM projects, or there should be exploration of potential solutions with state regulators and boards of consumer owned utilities. For BPA, and whatever mechanism it chooses, it will require cooperation with its customers and stakeholders.

c) What mechanisms could be developed to mitigate the lost revenue problem?

1. Annual rate adjustment or true-ups.

Annual true-ups or decoupled rate adjustments – results in small upward or downward changes in rates due to past-year gains or losses associated with unanticipated changes in throughput. These adjustments can be independent of a rate case. These rate adjustments will almost always be less than 1% per year; a cap/collar of 2% per year may help provide assurance to consumer groups.

BPA's public customers, acting through their boards, can institute these true-ups themselves; IOUs must secure regulatory approvals.

Annual true-ups could be supplemented with performance incentives to managers and/or shareholders, tied to verified savings associated with demand-side measures.

2. Use higher consumer fixed charges to reduce lost revenues associated with to DSM.
This is fiercely opposed by consumer groups and environmentalists. Higher fixed charges with lower energy charges create an incentive for retail consumers to use more electricity, by reducing rewards for more efficient use.

3. Calculate lost revenues from each program, and recover it annually or in the next rate case.
These adjustments are cumulative (given the long lifetimes of many measures) require contentious multi-year program-by-program evaluations, and have resulted historically in extensive controversy and litigation.

4. Consider lost revenues to be a cost of doing business.
This option is advocated by those who say that lost revenues are too small to matter, and that it's part of being a good regional citizen. However, this option leaves the utility with an incentive to avoid doing DSM.

TASKS

1. Assess lost revenue impacts

Task: Encourage the region's utilities and regulators to examine the level of impairment that lost revenues might represent to the success of cost-effective DSM programs.
Who:
Due Date:
Dollars:
Partners:

2. Explore options to minimize lost revenue impacts

Task: When significant impairment exists, the Round Table encourages the region's utilities and regulators to explore and adopt measures to minimize the impact of lost revenue on DSM projects.
Who:
Due Date:
Dollars:
Partners: